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Bartnett, Walter John

The United States and the inter-allied debt

New York

1922

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The United States and the Inter-Allied Debt

How Aid may be extended to Europe

WALTER JOHN BARTNETT
350 Madison Avenue, New York

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The United States and the Inter-Allied Debt. How Aid may be Extended to Europe

THE PEOPLE of the United States of America are not indifferent to the needs of the peoples of Europe.

The question arises "How can the Government of the United States help the nations of Europe and yet protect the interests of the people of this country?" The problem is a complex one and will require much wisdom to solve it properly. Foreign Governments owe the Government of the United States $11,517,660,341 of which $10,102,707,291 is principal and $1,414,953,069 is interest due to the last interest period. The following is a statement of the principal and interest due:

COUNTRY	PRINCIPAL AMOUNT OF OBLIGATIONS	INTEREST UNPAID	TOTAL AMOUNT OF INDEBTEDNESS
Armenia	$11,959,000	$1,177,000	$13,137,000
Austria	24,066,000	2,165,000	26,220,000
Belgium	377,123,000	51,391,000	428,515,000
Cuba	8,147,000	.....	8,147,000
Czechoslovakia	91,887,000	11,936,000	103,824,000
Esthonia	13,999,000	1,695,000	15,694,000
Finland	8,281,000	723,000	9,005,000
France	3,340,857,000	430,049,000	3,770,906,000
Great Britain	4,135,818,000	611,044,000	4,746,862,000
Greece	15,000,000	375,000	15,375,000
Hungary	1,685,000	151,000	1,837,000
Italy	1,648,034,000	343,480,000	1,891,514,000
Latvia	5,132,000	450,000	5,580,000
Liberia	26,000	2,000	28,000
Lithuania	4,981,000	498,000	5,479,000
Nicaragua	170,000	.....	170,000
Poland	135,662,000	22,931,000	148,594,000
Rumania	36,128,000	4,960,000	41,089,000
Russia	192,601,000	35,200,000	227,801,000
Serbia	51,153,000	6,719,000	57,872,000
Total	$10,101,707,000	$1,414,953,000	$11,517,660,000

Including interest due, this means more than $110.00 for each man, woman and child in the United States.

A part of this indebtedness was created for food and supplies purchased in this country, which assisted the Allies in maintaining their populations during the Great War. The debts due from the Allied Governments are undoubtedly just obligations. Heavy taxes are now being paid by the American people, due in large part on account of money loaned the Allied Governments. This heavy taxation is responsible in part for the high cost of living now prevailing in the United States.

Should the debt be cancelled? The American people realize that the debt cannot be paid in cash. It cannot be paid in goods without working some injury to the industries of our country.

The National Bank of Commerce of New York has issued a statement saying:

On February 9th the President signed a bill creating a commission to arrange the refunding of these obligations. The commission is specifically empowered within three years to refund and extend the time of payment of the principal or the interest of any obligation of any foreign Government arising out of the World War, now held or hereafter acquired by the United States. The converted obligations may not have a maturity beyond June 15, 1947, or an interest rate of less than 4¼%. Authority to cancel any part of the indebtedness or to substitute the obligations of one country for another is specifically withheld from the commission by the terms of the act.

It seems reasonable to predict that the commission will extend as lenient terms to our former Allies in the matter of refunding these debts as are possible under the terms of the legislation. In the country at large there are two well-defined opinions as to the question of ultimate payment, one for and one against the full cancellation of the debts.

The case for cancellation is well stated in a recent address by Justice Clark of the United States Supreme Court. The arguments run that for three years the Allies fought the central powers without our assistance. Our advances went to further the common victory, and were nothing less than our share in the war so that in equity there is nothing owing us.

But, assuming that the Allies can pay, so runs the argument, may it not be a question whether it is to our best interests that they do so? It is not necessary to demonstrate that our debtors must meet both

yearly interest payments and amortization chiefly by sending goods—manufactured goods—into this country. The annual interest alone on our foreign credits at 4¼% comes to a round half billion dollars. Our favorable trade balance of last year was about $2,000,000,000. If our Allies are able to meet their interest obligations, our trade balances will probably show a rapid readjustment during the next few years. The balance may shift to a so-called unfavorable one, with imports exceeding exports, conceivably by as much as $500,000,000. Such a sudden readjustment, such an influx of manufactured goods from abroad, would possibly entail serious consequences, prolonging for a long period unsatisfactory business conditions. If, however, our investors should purchase foreign securities on a large scale, readjustment may be partially arrested. Such are the main points of this phase of the case.

Those who wish to see our loans collected in full present counter-arguments. They hold that the war was primarily the war of Europe, precipitated by European imperialism, to which her opponents contributed as well as they. Our sole interest was to insure the defeat of Germany so that in future years we should not have to oppose her alone. We asked no assistance in maintaining our armies in the line; the funds borrowed from us by our Allies to maintain their armies are their just and due obligations, and they should expect to repay them. The cancellation of international obligations is a dangerous precedent to establish. Furthermore, the spoils of war in the shape of land acquisition and reparations in kind and money have gone entirely to others; we asked nothing in this connection.

On the economic side of the question, the opponents of cancellation maintain that if our Government can collect from its debtors yearly interest of half billion dollars or more, our taxes can be commensurably cut down. Lightened taxation is in turn expected to give a decided impetus to business revival. However opinions may differ as to the positive influence of taxation upon business activity, all sides will agree that taxation is at the present time absorbing larger share of the national income than is desirable.

We quote the following editorial from the New York *Tribune* under date of June 2nd, 1922:

THE INTER-ALLIED DEBT

In his discussion of the Inter-Allied debt question Lloyd George is frank. Great Britain will cancel if the United States will. He is also consistent. As far back as December 4, 1918, less than a month after Armistice Day, he proposed mutual cancellation, and whenever opportunity offered has renewed the proposal.

Though this country would be glad to retain the good opinion of Mr. George and of those who agree

with him with respect to what is America's duty, the acceptance of his plan is highly improbable. It is so unlikely that it is scarcely worth while to discuss it. Discussion would not only be barren of beneficial result, but would do harm by reviving debate as to which country did the most to win the war.

If Great Britain does not see her way clear to an unconditioned cancellation of the debt, France owes to her (France having made greater war sacrifices than any other nation), then the British people should be able to understand and to be tolerant of America's attitude toward Britain's debt to us.

Except among a few troublemakers there is little disposition in this country to press for early repayment. Our debt commission will doubtless consider in a favorable way any reasonable refunding proposal. But as our laws now are, cancellation seems out of the question. When we floated our war loans the nation pledged its lendings abroad to the payment of the Liberty Bonds. Thus there is a prior lien which it is doubtful whether our government has a moral right to repudiate.

For many years this country, through its citizens, owed many billions to Great Britain. We did not find the conditions intolerable. Few of our people were conscious that we were a debtor nation. So it will be scarcely intolerable for Europe to owe us.

From the foregoing it is evident that there is some sentiment in the country in favor of the cancellation of the indebtedness. On the other hand it is probable that the majority of the people of the United States are adverse to its cancellation. It will create a bad precedent to cancel this indebtedness. If the United States Government will not cancel it, what will it do? It is possible that the United States Government will be willing to release a part of this indebtedness, provided that in so doing it will advance the best interests of the nations and relieve the burdens of oppressed peoples.

A suggestion has been made by Mr. Frank A. Vanderlip that this indebtedness be used to assist Europe by using the funds for educational, social and other purposes that would uplift and help the people. He would use these funds to found universities, schools, hospitals and for sanitary and other purposes that would benefit the peoples of the afflicted lands. The money due the United States from China on account of the Boxer indemnity was remitted to China and used for educational purposes. It was a gift greatly appreciated by the Chinese

people, and has resulted in creating closer ties between the peoples of the United States and China.

Payment of Indebtedness by the Substitution of other Securities

ANOTHER PLAN which may be worth careful consideration in the case of some of the nations, particularly the smaller and less wealthy nations, is to permit the substitution of other securities in whole or in part for the obligations now due. Under this plan the United States Treasury would accept, either with or without the guaranty of the nation, securities of productive enterprises in lieu of cash. This would enable the nations to use the cash in rehabilitation projects for the betterment of their peoples and would give the Treasury of the United States deferred but valuable obligations in lieu of the present obligations. A Commission with broad administrative powers would be needed to determine the securities to be substituted.

The International City

A SUGGESTION has also been made that a part of this indebtedness be utilized to build a World-Center or International City, the City to be located in Belgium. This City was conceived by Hendrik C. Andersen. Mr. Andersen has devoted 17 years of his life and a large fortune to this cause. To quote him "This City was conceived to house international interests and unite peoples and nations for the attainment of peace and progress throughout the world upon broad humanitarian lines, advocating world-unity and brotherhood with the ultimate purpose and object of establishing a World-Federation. Founded in Purity and Love and strengthened by Justice, the nations of the World must ultimately blend harmoniously into one great family. Humanity's mission is to realize the Kingdom of Heaven on Earth, visioned from within by the Spirit of Man."

The International City in the words of M. Paul Adam is "A world-center of scientific and

philosophical research, where the most notable scholars, in possession of new ideas, can readily experiment the value of the hypothesis constructed either by themselves or by their disciples. A center wherein a world-record could be kept of the entire range of the progressive imagination of man, and where nothing usefully conceived by the human brain would be lost. A center from which economic and practical knowledge would flow to all parts of the world. A center and a city outside of all historical and social quarrels, of all economic and national rivalries, a center belonging without possible exception to all."

The International City would house the International Court of Justice, the International Institute of Agriculture, the League of Nations, the Red Cross, and many of the existing international activities. It would be a center for the diffusion of intelligence of all kinds. In the City there would be located an International University, controlled by the Nations and supplied with professors and teachers from all lands, a Temple of Arts, a Conservatory of Music, a Natural History Museum, a great Library, and international schools and institutions of Law, Medicine, Mines and Chemistry. Zoological gardens and a great stadium have been designed. A temple has been designed for Religion "with a view to assemble the spiritual thought of the past and the present, a temple where would meet the spiritual leaders of the age to bring together the searchings of the human soul after Divinity and to aid man in discovering the Religion of Life, relating the mortal to immortality."

An International Bank is planned for this City as well as a Central Clearing House.

The Tower of Progress is designed as a fifty story building, with powerful wireless apparatus, and an immense printing plant. From this tower messages would be sent by wireless and other means to inform the world of all new developments and news of value.

Plans for such a center have been worked out in great detail by Mr. Andersen assisted by

the noted French architect, M. Ernest Hebrard, and by forty able architects and engineers.

The Union of International Associations in Brussels, are advocating the location of the "World Center City" or International City at Tervueren near Brussels and Senator La Fontaine and M. Dr. Paul Otlet have presented this project to the Belgium Government. Belgium will hold an International Exposition in 1930 to commemorate her one hundreth anniversary of Freedom. The Union of International Associations are advocating the adapting of the plans of the Exposition so as to use many of the buildings for the permanent use of the International City.

Belgium owes the Treasury of the United States approximately $428,515,000 principal and interest. It would undoubtedly meet the approval of public opinion if the United States would remit to Belgium, or credit her on this indebtedness the sum of $150,000,000 subject to the condition that this amount be used to assist in building the International City and subject to the condition that Belgium should set aside a suitable territory for this purpose, say an area from 100 to 200 square miles and should renounce her sovereignty over the territory so that a suitable government could be provided for the same acceptable to the League of Nations and to the leading Governments not members of the League.

Public sentiment would doubtless approve of the remitting of other sums due the Treasury of the United States from other nations or crediting the same on their indebtedness provided that these sums were utilized for the work of constructing the International City and organizing the institutions to be housed there.

The International City will be in the interests of the peoples of all lands. If in all the United States should remit or credit $300,000,000 on this indebtedness providing the same were expended in the construction of the City and in the organizing and endowment of the institu-

tions that are projected for that City, the interests of all nations would be advanced. It must be remembered that the International City is not merely a structure. It is conceived along spiritual lines to advance the intangible as well as the tangible, one great object being the diffusion of knowledge, science, art—all that appeals to the higher nature of man. This would result in lessening international misunderstandings. The late war gave a graphic illustration of the frightful cost from a material standpoint of modern warfare. $300,000,000 may seem a large sum but it represents the cost of the Great War only for a few days. May not such a City with the activities and institutions that are contemplated be the means of averting another great war?

The International City has met with approval from leading statesmen in many lands. It will doubtless receive financial support in many countries. Men who have acquired wealth in various lines of endeavor will find this Center or City a means of utilizing their wealth to great advantage. This City will offer a means for using wisely some of the funds that have been bequeathed to the great Foundations, like the Rockefeller, Carnegie and Sage Foundations.

The contribution of money and effort which the people of the United States have made toward the cause of charity is potent evidence that mankind is climbing upward. Hundreds of millions of American money was expended to help the suffering people of Europe. Undoubtedly hundreds of thousands of children have been saved by contributions made by the American people and the Government of the United States.

But Europe can not be helped indefinitely in this manner. Europe should not expect the remission of the debt justly due the United States on charitable grounds. England intends to pay her debt. She wants no charity. Undoubtedly other European countries will come to see this subject in the same way. Cancella-

tion of indebtedness without a just reason beggars the individual or the nation who receives the same. The remission of a part of the debts, due the United States Government would doubtless receive the approval of the American people provided the same were expended for educational and sanitary purposes, in the building of hospitals, in the care of children, orphaned or made waifs by the Great War and for other social and betterment work that would receive the approval of the representatives of the United States Government in charge of this subject.

America owes a high duty to Europe. That duty arises from the fact that she has suffered less in the Great War than any other land and that she has great resources at her command. It is her duty in consequence to help the less fortunate nations, particularly the countries of Europe that fought with her in the Great Conflict. How can that be accomplished in the most effective manner? The answer is through constructive assistance, that is to help along business lines. To a great extent this will be done by individual effort. Friends and relatives in America helping friends and relatives abroad and particularly by financial institutions and corporations providing credit and capital along business lines to European institutions and banks.

The International Bank

ONE PRACTICAL METHOD of rendering assistance is through an International Bank. Mr. Frank A. Vanderlip has stated this well in his recent book, "What Next In Europe?" He has suggested an International Bank. A summary of his plan was published in the *World's Work* for July, 1922. We quote from this summary:

SUGGESTIONS FOR A WAY OUT.

The first is to create a Gold Reserve Bank for the United States of Europe, modelled on the American Federal Reserve System. Mr. Vanderlip suggests that the European bank should be organized through some international body like the League of Nations

with a capital of a billion dollars paid in in gold. The bulk of this, presumably, would have to be furnished by investors in the United States. In all of the European countries, Gold Reserve National Banks should be organized under special legislative acts, their capital to be subscribed out of the funds of the Gold Reserve Bank of the United States of Europe. Each Gold Reserve National Bank would deal solely with incorporated commercial banks and not with individuals; it would receive deposits and make loans against short term commercial paper under strict conditions as to the solvency of the banks and the character of the transactions. The Gold Reserve Bank of the United States of Europe would have the power to issue circulating notes and to advance them to the national banks against deposits of gold or of gold and endorsed paper. In the details of his scheme Mr. Vanderlip seeks to guard against the control of the banks by the financial interests owning the stock and to avoid contests between governments or individuals to secure a preponderating influence. This is Mr. Vanderlip's proposal for the stabilization of currencies, or at least for making possible commercial transactions by international financial cooperation. A joint monetary system would be established to displace the broken down national systems and to permit international trade to be carried on in spite of depreciated national currencies. Mr. Vanderlip recognizes the objection that the old, bad money may drive out of circulation the new, good money (Gresham's Law) but he does not think this danger serious. He is not dogmatic on the details of his plan, but he is firm in believing that progress is possible only through some supra-national monetary agency.

Another Tentative Plan

DOUBTLESS MANY suggestions will be made regarding the form of organization of the International Bank. The following is one: That a charter for a bank be authorized by legislation of the leading Allied Governments or by authority of the League of Nations. That the bank be capitalized for $1,000,000,000, of which $500,000,000 shall be cumulative 6% preferred stock and $500,000,000 shall be common stock. That the dividends to be paid on the common stock shall be limited to 7%. That one-half of the capital of the bank, namely $500,000,000 be subscribed for by the United States Treasury and that $250,000,000 gold shall be paid into the bank by the United States Treasury and that $250,000,000 of the 6% preferred stock be issued therefor; that $250,000,000 of the capital shall be paid in by

the transfer from the Treasury of the United States to the Bank of $250,000,000 of bonds of the leading Allied Governments and that common stock shall be issued for the same to the amount of $250,000,000. That the common stock so issued shall be held in the Treasury of the United States in lieu of bonds so transferred; that the remaining 50% of the stock of the International Bank, namely $500,000,000 be subscribed by the other Governments, either directly, or through their banks, or such other agencies as the nations may agree upon That $250,000,000 of gold be paid in to the treasury of the bank for which preferred stock shall be issued and that the remaining $250,000,000 of such subscriptions shall be in bonds or securities that shall meet the approval of the Board of Governors of the International Bank and which shall have met the previous approval of the President and the Treasurer of the United States, or the Allied Debt Commission, if it is deemed expedient that such Commission be authorized to act in this matter.

The Allied Debt Commission, composed of Secretary of the Treasury Mellon, Secretary of State Hughes, Secretary of Commerce Hoover and Senator Smoot and Congressman Burton, would be an admirable body to be entrusted with the consideration of this subject.

That the charter creating the bank shall provide for a Board of Governors, their number and method of appointment to be determined in a manner to meet the approval of the President and the Treasurer of the United States, or the Allied Debt Commission and the representative of other nations, or their banks of issue, or such agencies as the nations may agree upon. That the details of such appointment be worked out after conference with the proper constituted representative of the Governments, banks of issue or agencies and the President and the Treasurer of the United States or the Allied Debt Commission.

If deemed advisable, capital may be paid in

from time to time as may be determined by the Board of Directors.

Provision shall be made in the charter providing for an increase or decrease of the capital stock and also for a surplus and reserve fund.

The charter organizing the bank shall grant the power to establish branch banks or to incorporate subsidiary banks, as may be determined by the Board of Governors, the capital of the subsidiary banks to be furnished by the International Bank. In the course of time, branch banks or subsidiary banks would be established in some of the leading commercial centers in Europe and elsewhere throughout the world.

The International Bank would deal only with banks. It would not accept individual deposits or make individual loans.

The Bank should not be permitted by its charter to finance or attempt to finance government loans, unless the loans be for productive enterprises which have the collateral of the enterprises behind them, and which enterprises meet the approval of the Board of Governors. A restriction should be made by the charter which would prevent any loan being made which would be used directly or indirectly for any military or naval expenditure.

The purpose of the bank should be to extend credit to existing banks by re-discounting certain restricted commercial paper, acceptances and obligations and by making loans on restricted classes of collateral.

Circulating Notes

One of the principal functions of the Bank should be to issue circulating notes, the amount thereof to be determined by the amount of its gold reserve. These notes to be secured by gold or short time bills and acceptances and certain secured collateral endorsed by banks. The circulating notes would act as an international currency furnishing a circulating medium of great usefulness in the present confused condition of international exchange. The effect should be to assist in stabilizing exchange and

to stimulate and facilitate financial transactions between the nations. The Federal Reserve System of the United States will offer an admirable model for the organization of the International Bank.

Legislation by the Congress of the United States would of course be necessary before the Government of the United States would be empowered to act along the lines suggested.

Stabilization of Currencies

That normal conditions in trade and commerce are dependent to a large degree upon the stabilization of the value of European and other currencies in terms of gold is admitted by most students of economics. The *Guaranty Survey* published by the Guaranty Trust Company of New York says: "This (stabilization) must be accomplished, not necessarily the prewar parity, if the world is ever again to be able to carry on international or domestic trade without the hazard of widely fluctuating exchanges.

"The position of the paper currencies and the impounded gold reserves of the different European countries presents a confused variety of factors both favorable and unfavorable, which makes a study of the situation as a whole desirable. The paper currencies have practically ceased to expand in some countries, in others inflation is going on at a more rapid pace than ever before, while in a few countries material contraction has already taken place.

"Large and small countries alike are represented in each of these classes. The most prominent among those which are contracting their paper money circulation are the former neutrals and Great Britain. France and Italy may be classed with these or among the countries like Czechoslovakia, the volume of whose currency appears to be relatively stabilized, but France and Italy continue the expansion of their short-term debts. Currency inflation, however, is still proceeding at a rapid pace in Germany, Austria, Hungary, Poland and several other Eastern European States.

"Looked at from the standpoint of gold reserves, the European situation appears somewhat improved although the gold is not in free circulation and is held also as a reserve against deposits in the note issuing banks. The fiscal situation in various European countries shows wide differences, however, for some have surprisingly large amounts of gold on hand while others have virtually no gold at all.

"Stabilization of these currencies in terms of gold cannot be brought about until the Governments which are increasing their fiat currencies through their banks of issue either balance their budgets by increased taxation and reduced expenditures, or finance their deficits by some sound means."

It is submitted that the proposed International Bank will have a potent effect in stabilizing currencies, and furnishing a medium of exchange without the danger of wild fluctuations which are now affecting adversely commercial transactions.

WALTER JOHN BARTNETT.

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